

CITY OF RICHWOOD

RICHWOOD, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2010

**KENNEMER, MASTERS & LUNSFORD, LLC
CERTIFIED PUBLIC ACCOUNTANTS
8 WEST WAY COURT
LAKE JACKSON, TEXAS 77566**

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CITY OF RICHWOOD

Richwood, Texas

Annual Financial Report For the Year Ended September 30, 2010

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FINANCIAL SECTION

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KENNEMER, MASTERS & LUNSFORD

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Independent Auditor's Report

January 13, 2011

To The Honorable Mayor and
Members of City Council
City of Richwood
Richwood, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richwood, Texas (the "City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richwood, Texas as of September 30, 2010 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis on pages 9 through 18 and the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund and the Texas Municipal Retirement System Schedule of Funding Progress - Last Three Years on pages 56 through 57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Richwood's basic financial statements. The individual fund schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kennebrew, Masters & Hunzford, LLC

CITY OF RICHWOOD, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2010

As management of the City of Richwood, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010.

Financial Highlights

- The assets of the City of Richwood exceeded its liabilities at the close of the most recent fiscal year by \$ 14,067,334 (net assets). Of this amount, \$ 1,352,104 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation.
- The City's total net assets increased by \$ 6,101,059.
- As of the close of the current fiscal year, the City of Richwood's governmental funds reported combined ending fund balances of \$ 1,064,717. 56.76% of this total amount, \$ 604,358 (unreserved fund balance) is available for use within the City's fund designation.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 604,358 or 38.88% of the total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Richwood's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The *governmental activities* of the City include general government and administration, public safety, public works, and parks and recreation. The *business-type activities* of the City include Water and Sewer and Sanitation operations.

CITY OF RICHWOOD, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2010

The government-wide financial statements can be found on pages 20 through 23 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- **Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two (2) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Debt Service funds. The General and Debt Service funds are considered to be major funds. The governmental fund financial statements can be found on pages 24 through 27 of this report.

- **Proprietary Funds.** The City maintains one category of *proprietary funds*-Enterprise Funds. Enterprise funds are used to report the same functions presented as business-type activities in government-wide financial statements. The City uses enterprise funds to account for its water and sewer, and sanitation operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 28 through 32 of this report.

CITY OF RICHWOOD, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2010

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 through 54 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund, and information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 56 and 57 of this report.

The individual fund statements and schedules, and other schedules are presented following the required supplementary information. These individual statements and schedules and other schedules can be found on pages 60 through 61 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Richwood, assets exceeded liabilities by \$ 14,067,334 as of September 30, 2010.

The largest portion of the City's net assets \$ 12,138,151 (86.29%) reflects its investments in capital assets (e.g., land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

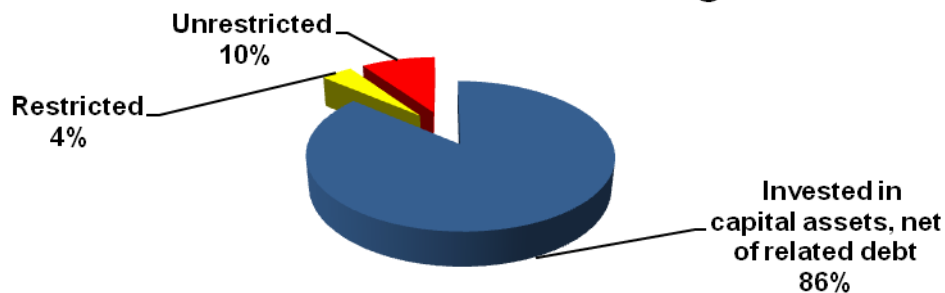
An additional portion of the City's net assets of \$ 577,079 (4.10%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$ 1,352,104 (9.61%) may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2010

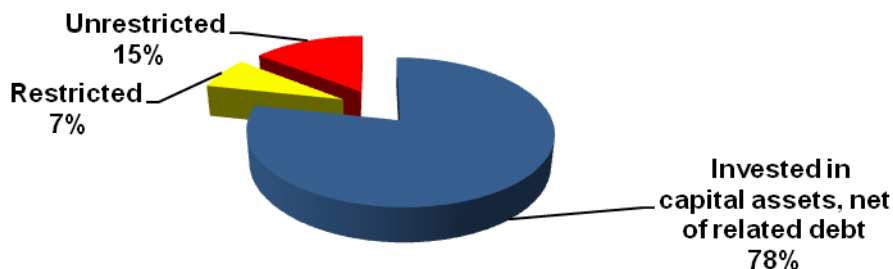
CITY OF RICHWOOD'S STATEMENT OF NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 1,173,042	\$ 988,975	\$ 1,004,972	\$ 834,951	\$ 2,178,014	\$ 1,823,926
Capital assets	<u>7,570,157</u>	<u>2,985,297</u>	<u>6,013,067</u>	<u>4,786,447</u>	<u>13,583,224</u>	<u>7,771,744</u>
Total assets	<u>8,743,199</u>	<u>3,974,272</u>	<u>7,018,039</u>	<u>5,621,398</u>	<u>15,761,238</u>	<u>9,595,670</u>
Other liabilities	62,157	57,975	233,449	218,492	295,606	276,467
Long-term liabilities	<u>751,848</u>	<u>786,928</u>	<u>646,450</u>	<u>566,000</u>	<u>1,398,298</u>	<u>1,352,928</u>
Total liabilities	<u>814,005</u>	<u>844,903</u>	<u>879,899</u>	<u>784,492</u>	<u>1,693,904</u>	<u>1,629,395</u>
Net Assets:						
Invested in capital assets, net of related debt	6,818,309	2,198,369	5,319,842	4,046,447	12,138,151	6,244,816
Restricted	216,797	190,091	360,282	382,880	577,079	572,971
Unrestricted	<u>894,088</u>	<u>740,909</u>	<u>458,016</u>	<u>407,579</u>	<u>1,352,104</u>	<u>1,148,488</u>
Total net assets	<u>\$ 7,929,194</u>	<u>\$ 3,129,369</u>	<u>\$ 6,138,140</u>	<u>\$ 4,836,906</u>	<u>\$ 14,067,334</u>	<u>\$ 7,966,275</u>

2010 Net Asset Percentage



2009 Net Asset Percentage



CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2010

As of September 30, 2010, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories-governmental and business-type activities.

Analysis of the City's Operations. The following table provides a summary of the City's operations for the year ended September 30, 2010. Governmental activities increased the City of Richwood's net assets by \$ 4,799,825. Business-type activities increased the City's net assets by \$ 1,301,234.

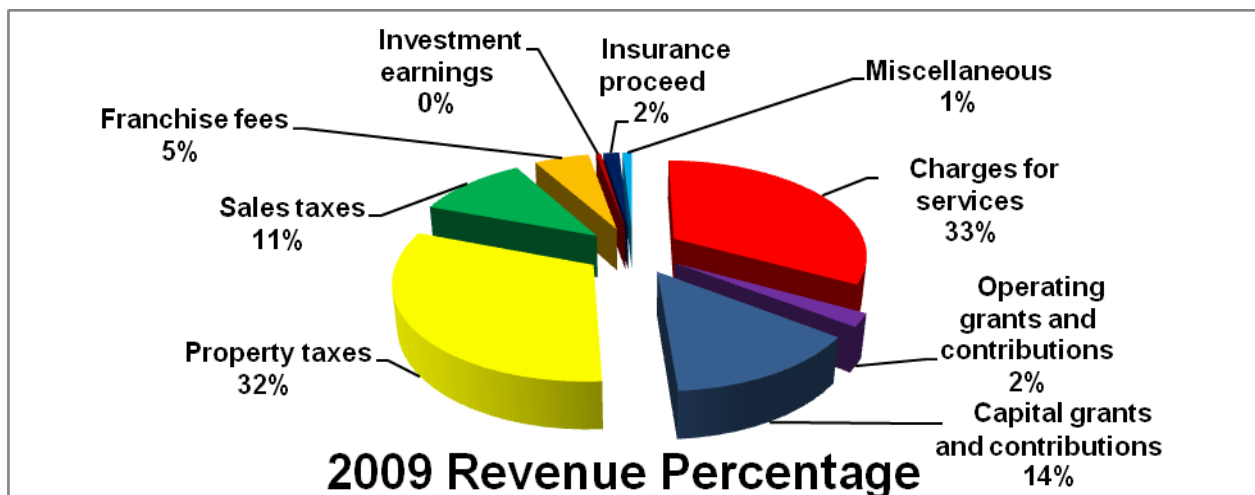
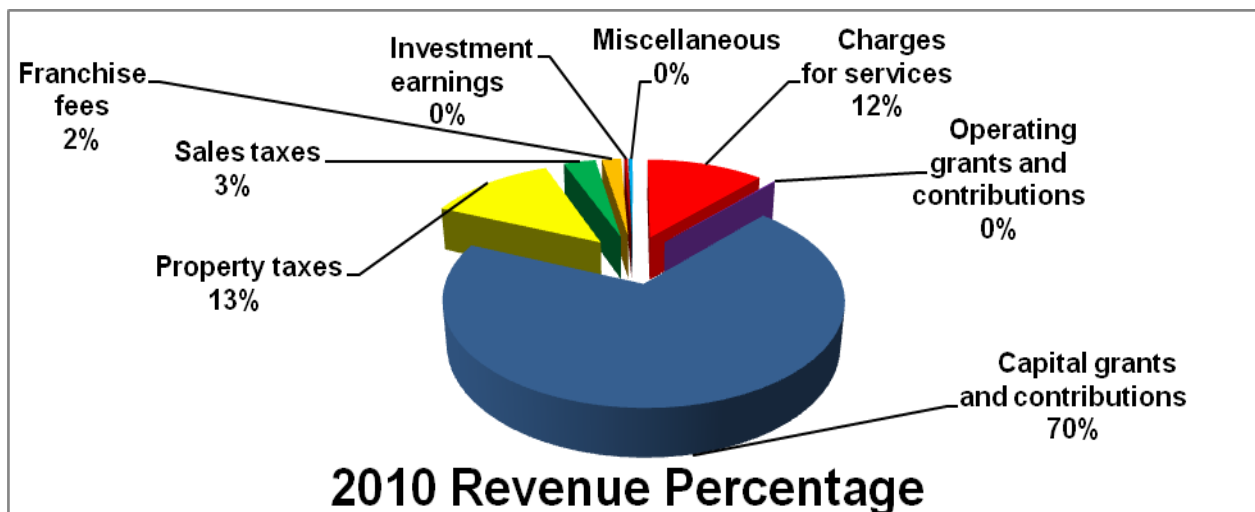
CITY OF RICHWOOD'S STATEMENTS OF ACTIVITY

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for services	\$ 244,723	\$ 148,781	\$ 801,240	\$ 794,197	\$ 1,045,963	\$ 942,978
Operating grants and contributions	13,786	63,355			13,786	63,555
Capital grants and contributions	4,800,000	350,000	1,410,970	47,493	6,210,970	397,493
General Revenues:						
Taxes:						
Property taxes	1,128,754	907,587			1,128,754	907,587
Sales taxes	286,238	317,227			286,238	217,227
Franchise fees	171,829	156,309			171,829	156,309
Investment earnings	24,247	9,659	9,621	3,826	33,868	13,485
Insurance proceed				44,882	-0-	44,882
Miscellaneous	<u>34,303</u>	<u>26,843</u>			<u>34,303</u>	<u>26,843</u>
Total revenues	<u>6,703,880</u>	<u>1,979,761</u>	<u>2,221,831</u>	<u>890,398</u>	<u>8,925,711</u>	<u>2,870,159</u>
Expenses:						
General administration	344,495	320,717			344,495	320,717
Judicial	16,217	12,840			16,217	12,840
Police department	780,600	793,079			780,600	793,079
Fire department	120,456	137,880			120,456	137,880
City maintenance	263,286	257,882			263,286	257,882
Streets and drainage	167,529	125,445			167,529	125,445
Parks and recreation	77,088	85,219			77,088	85,219
Hurricane Ike		59,991			-0-	59,991
Interest on long-term debt	44,384	46,542			44,384	46,542
Water, sewer & sanitation			<u>1,010,597</u>	<u>821,736</u>	<u>1,010,597</u>	<u>821,736</u>
Total expenses	<u>1,814,055</u>	<u>1,839,595</u>	<u>1,010,597</u>	<u>821,736</u>	<u>2,824,652</u>	<u>2,661,331</u>

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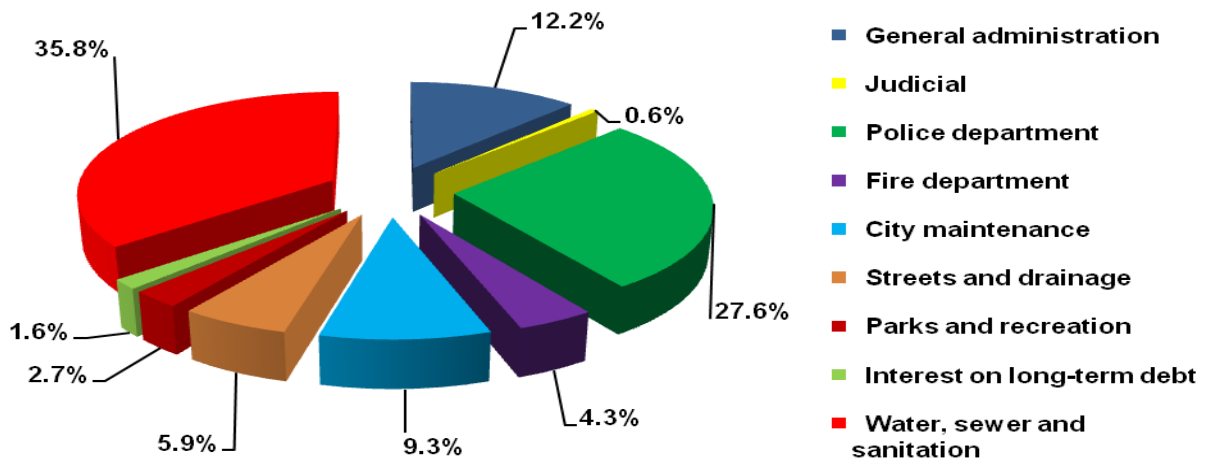
CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2009

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2010	2009	2010	2009	2010	2009
Increase (decrease) in net assets before transfers	\$ 4,889,825	\$ 140,166	\$ 1,211,234	\$ 68,662	\$ 6,101,059	\$ 208,828
Transfers	(90,000)		90,000		-0-	-0-
Increases (decreases) in Net assets	4,799,825	140,166	1,301,234	68,662	6,101,059	208,828
Net assets – beginning	<u>3,129,369</u>	<u>2,989,203</u>	<u>4,836,906</u>	<u>4,768,244</u>	<u>7,966,275</u>	<u>7,757,447</u>
Net assets – ending	<u>\$ 7,929,194</u>	<u>\$ 3,129,369</u>	<u>\$ 6,138,140</u>	<u>\$ 4,836,906</u>	<u>\$ 14,067,334</u>	<u>\$ 7,966,275</u>

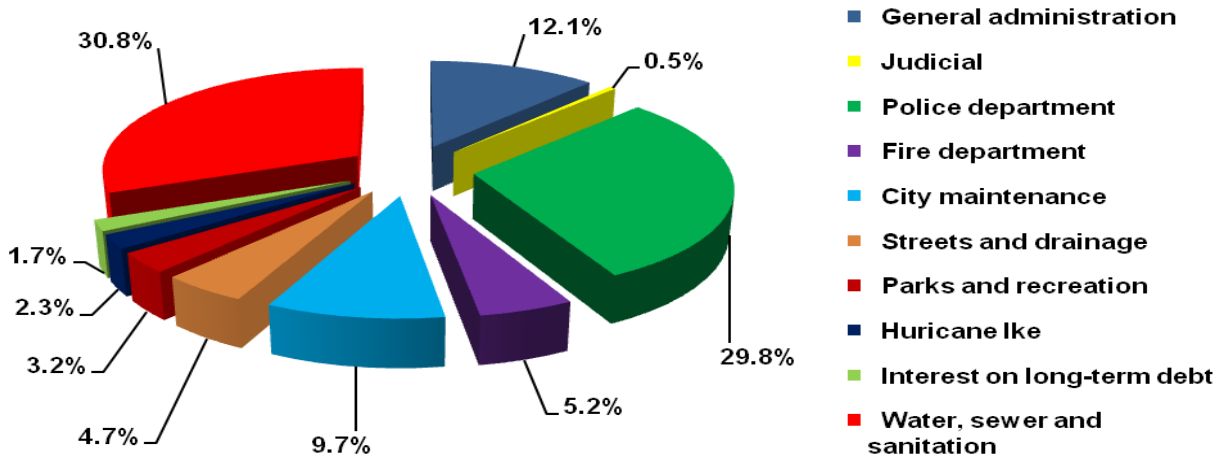


CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2010

2010 Percentage Expenses by Function



2009 Percentage Expenses by Function



CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2010

Financial Analysis of the City's Funds

As noted earlier, the City of Richwood uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Richwood's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Richwood's governmental funds reported combined ending fund balances of \$ 1,064,717. 79.81% of this total amount (\$ 849,787) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) encumbrances (\$ 22,598), 2) for Ford Park (\$ 859), 3) for debt service (\$ 44,228), 4) for court security and technology (\$ 20,020), and 5) for relocation of water and sewer lines (\$ 127,225).

The General Fund balance increased by \$ 149,332; and the Debt Service Fund balance increased by \$ 17,171

Proprietary funds. As mentioned earlier, the City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at September 30, 2010 amounted to \$ 458,016. Total net assets increased \$ 1,301,234.

General Fund Budgetary Highlights. The City's overall budgeted revenue and expenditures increased during the year by 6.10% or \$ 99,039; which were the result of revised projections. Expenditures were under budgetary estimates.

Capital Assets

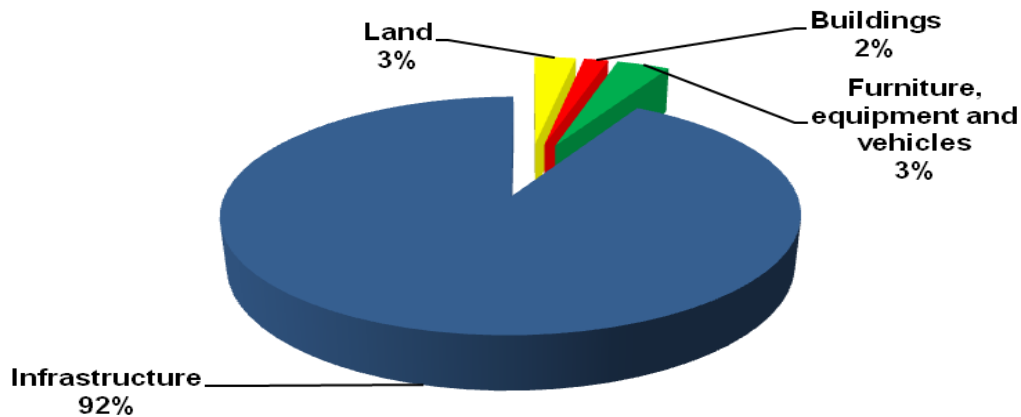
The City of Richwood's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$ 13,583,224 (net of accumulated depreciation). This investment in capital assets includes land, buildings, furniture, equipment and vehicles, and infrastructure. During the year ended September 30, 2010, the City received contributed capital in the amount of \$ 6,210,970, in which \$ 6,100,000 was from the Oakwood Shores Infrastructure Subdivision, and \$ 110,970 was from other governments. Of the total amount, \$ 4,800,000 is reported within governmental activities and \$ 1,410,970 is reported within the business-type activities as water system improvements.

CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2010

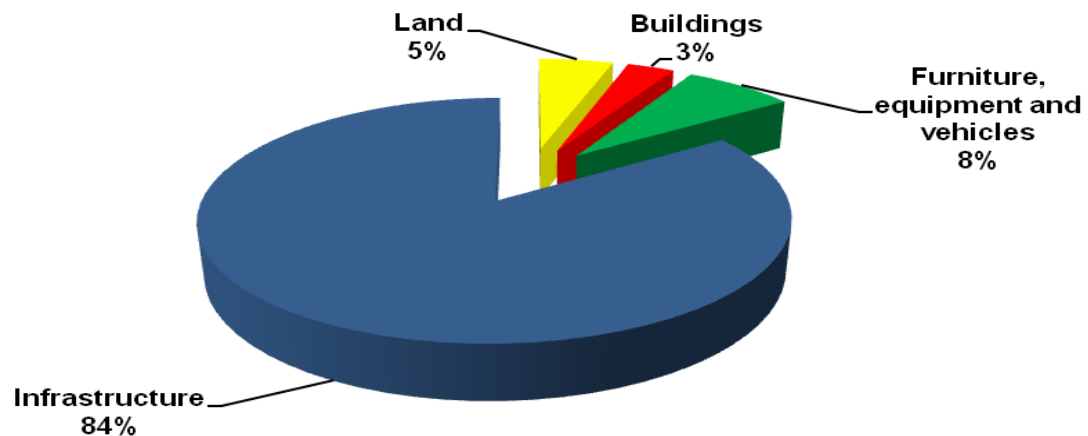
**Capital Assets at Year-end
Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2010	2009	2010	2009	2010	2009
Land	\$ 266,940	\$ 266,940	\$ 122,580	\$ 122,580	\$ 389,520	\$ 389,520
Buildings	119,326	133,301	109,082	113,676	228,408	246,977
Furniture, equipment & vehicles	475,575	551,210	22,079	26,552	497,654	577,762
Infrastructure	<u>6,708,316</u>	<u>2,033,846</u>	<u>5,759,326</u>	<u>4,523,639</u>	<u>12,467,642</u>	<u>6,557,485</u>
Total assets	<u>\$ 7,570,157</u>	<u>\$ 2,985,297</u>	<u>\$ 6,013,067</u>	<u>\$ 4,786,447</u>	<u>\$ 13,583,224</u>	<u>\$ 7,771,744</u>

2010 Capital Assets Percentage



2009 Capital Assets Percentage



CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2010

Additional information on the City of Richwood's capital assets can be found in Note 6 on pages 47 through 48 of this report.

Debt Administration

At the end of the current fiscal year, the City of Richwood had a total certificates of obligation payable and revenue bonds payable of \$ 1,316,000. Of this amount, \$ 1,165,000 is comprised of bonded debt backed by the full faith and credit of the City. These bonds will be retired with revenues from property and sales taxes. The remaining \$ 151,000 represents bonds secured solely by water and sewer revenues. Further, the City did not have obligations under capital lease.

	Outstanding Debt at Year End					
	Bonds Payable					
	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2010	2009	2010	2009	2010	2009
Certificates of						
Obligation bonds	\$ 750,000	\$ 785,000	\$ 415,000	\$ 435,000	\$ 1,165,000	\$ 1,220,000
Revenue bonds			151,000	165,000	151,000	165,000
Total	<u>\$ 750,000</u>	<u>\$ 785,000</u>	<u>\$ 566,000</u>	<u>\$ 600,000</u>	<u>\$ 1,316,000</u>	<u>\$ 1,385,000</u>

All of the outstanding Bonds of the City payable from its limited taxes are insured and are, therefore, rated "Aaa" by Moody's Investors Service Inc ("Moody's"), and "AAA" by Standard & Poor's ("S&P"). The underlying rating on all of such Bonds and other obligations payable from such source are "A1" by Moody's and "A+" by S&P.

Additional information on the City of Richwood's long term debt can be found in Note 7 on pages 48 through 50 of this report.

Economic Factors and Next Year's Budgets and Rates

In the 2010-2011 Budget, General fund revenues are budgeted to increase by 1.4% from 2009-2010 budget year due to increases in general property taxes and municipal court fees.

Certified assessed valuations increased 3.0% over the preceding year. Property taxes will increase approximately 2.6%.

The Enterprise Fund's 2010-2011 budgeted expenditures are to increase by 10.14% than the preceding year's budget. Water and Sewer rates for the 2010-2011 budget year will increase by 3.9% due primarily to the costs relating to the rehabilitation of the Clute/Richwood Sewage Transmission Line.

Request for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Secretary, 215 Halbert, Richwood, Texas, 77531, or call (979) 265-2082.

BASIC FINANCIAL STATEMENTS

CITY OF RICHWOOD

Richwood, Texas

STATEMENT OF NET ASSETS

September 30, 2010

	Governmental Activities	Business- Type Activities	Total
Assets:			
Cash and temporary investments	\$ 515,439	\$ 342,384	\$ 857,823
Investments	367,747	45,222	412,969
Receivables (Net)			
Property taxes	27,730		27,730
Accounts		133,904	133,904
Sales taxes	52,328		52,328
Accrued interest	183	51	234
Other	51,199		51,199
Interfund accounts	150,465	(150,465)	-0-
Due from other governments	7,951	47,493	55,444
Restricted Assets:			
Temporarily Restricted:			
Cash and temporary investments		186,398	186,398
Investments		233,868	233,868
Accrued interest		249	249
Bond issuance costs – current		1,027	1,027
Bond issuance costs (net)		14,376	14,376
Capital Assets (Net of Accumulated Depreciation):			
Land	266,940	122,580	389,520
Buildings	119,326	109,082	228,408
Furniture, equipment and vehicles	475,575	22,079	497,654
Infrastructure	6,708,316	5,759,326	12,467,642
Total assets	8,743,199	6,867,574	15,610,773

(continued)

CITY OF RICHWOOD

Richwood, Texas

STATEMENT OF NET ASSETS - Continued

September 30, 2010

	Governmental Activities	Business- Type Activities	Total
Liabilities:			
Accounts payable	\$ 48,739	\$ 87,798	\$ 136,537
Unearned revenue	13,418		13,418
Liabilities Payable from Restricted Assets:			
Accrued interest payable		6,592	6,592
Revenue bonds payable – current		35,000	35,000
Customer deposits		69,044	69,044
Noncurrent Liabilities:			
Due within one year	36,848		36,848
Due in more than one year	715,000	531,000	1,246,000
Total liabilities	814,005	729,434	1,543,439
Net Assets:			
Invested in capital assets, net of related debt	6,818,309	5,319,842	12,138,151
Restricted For:			
Encumbrances	22,598		22,598
Ford park	859		859
Debt service	46,095	358,868	404,963
Capital projects		1,414	1,414
Court security and technology	20,020		20,020
Enterprise fund (Long-term receivable)	127,225		127,225
Unrestricted	894,088	458,016	1,352,104
Total net assets	\$ 7,929,194	\$ 6,138,140	\$ 14,067,334

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General administration	\$ 344,495	\$ 32,686	\$	\$
Judicial	16,217			
Police department	780,600	199,533	13,786	
Fire department	120,456			
City maintenance	263,286			
Streets and drainage	167,529			4,800,000
Parks and recreation	77,088	12,504		
Interest on long-term debt	44,384			
Total governmental activities	<u>1,814,055</u>	<u>244,723</u>	<u>13,786</u>	<u>4,800,000</u>
Business-type Activities:				
Water, sewer and sanitation	<u>1,010,597</u>	<u>801,240</u>		<u>1,410,970</u>
Total business-type activities	<u>1,010,597</u>	<u>801,240</u>	<u>-0-</u>	<u>1,410,970</u>
Total	<u>\$ 2,824,652</u>	<u>\$ 1,045,963</u>	<u>\$ 13,786</u>	<u>\$ 6,210,970</u>
General Revenue:				
Taxes:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Sales taxes				
Franchise fees				
Investment earnings				
Miscellaneous				
Transfer in (out)				
Total general revenues				
Change in net assets				
Net assets – beginning				
Net assets – ending				

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business- Type Activities	Total
\$(311,809) \$		\$(311,809)
(16,217)		(16,217)
(567,281)		(567,281)
(120,456)		(120,456)
(263,286)		(263,286)
4,632,471		4,632,471
(64,584)		(64,584)
(44,384)		(44,384)
<u>3,244,454</u>	<u>-0-</u>	<u>3,244,454</u>
	<u>1,201,613</u>	<u>1,201,613</u>
<u>-0-</u>	<u>1,201,613</u>	<u>1,201,613</u>
<u>3,244,454</u>	<u>1,201,613</u>	<u>4,446,067</u>
1,032,427		1,032,427
96,327		96,327
286,238		286,238
171,829		171,829
24,247	9,621	33,868
34,303		34,303
(90,000)	90,000	-0-
<u>1,555,371</u>	<u>99,621</u>	<u>1,654,992</u>
4,799,825	1,301,234	6,101,059
<u>3,129,369</u>	<u>4,836,906</u>	<u>7,966,275</u>
<u>\$ 7,929,194</u>	<u>\$ 6,138,140</u>	<u>\$ 14,067,334</u>

CITY OF RICHWOOD

Richwood, Texas

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2010

	General Fund	Debt Service	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 502,576	\$ 12,863	\$ 515,439
Investments	353,826	13,921	367,747
Receivables:			
Property taxes (net)	25,325	2,405	27,730
Sales taxes	52,328		52,328
Other governments	7,711	240	7,951
Accrued interest	165	18	183
Other	26,601		26,601
Due from other funds	<u>150,465</u>	<u>16,648</u>	<u>167,113</u>
 Total assets	 \$ <u>1,118,997</u>	 \$ <u>46,095</u>	 \$ <u>1,165,092</u>
<u>Liabilities and Fund Balances</u>			
<u>Liabilities:</u>			
Accounts payable and accrued expenditures	\$ 48,739	\$	\$ 48,739
Due to other funds	16,648		16,648
Deferred revenue	<u>33,121</u>	<u>1,867</u>	<u>34,988</u>
 Total liabilities	 <u>98,508</u>	 <u>1,867</u>	 <u>100,375</u>
 Fund Balance:			
Reserved For:			
Encumbrances	22,598		22,598
Ford park	859		859
Debt service		44,228	44,228
Court security and technology	20,020		20,020
Enterprise fund (Long-term receivable)	127,225		127,225
Unreserved:			
Designated For:			
Insurance	16,161		16,161
Capital improvement	95,982		95,982
Equipment replacement	109,324		109,324
Crime control and prevention	23,962		23,962
Undesignated	<u>604,358</u>		<u>604,358</u>
 Total fund balances	 <u>1,020,489</u>	 <u>44,228</u>	 <u>1,064,717</u>
 Total liabilities and fund balances	 \$ <u>1,118,997</u>	 \$ <u>46,095</u>	 \$ <u>1,165,092</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS

September 30, 2010

Total fund balances – governmental funds balance sheet	\$ 1,064,717
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 11,000,239 in assets less \$ 3,430,082 in accumulated depreciation.	7,570,157
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 19,703 and \$ 1,867, respectively.	21,570
Municipal court receivables unavailable to pay for current period expenditures are not recognized in the governmental funds. Municipal court receivables of \$ 108,364, net of allowance of \$ 83,766.	24,598
Payables for bond principal is not reported in the funds.	(750,000)
Payables for bond interest are not reported in the funds.	(<u>1,848</u>)
Net assets of governmental activities – statement of net assets.	\$ <u><u>7,929,194</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2010

	General Fund	Debt Service	Total Governmental Funds
Revenues:			
Taxes:			
Property taxes	\$ 1,031,246	\$ 96,416	\$ 1,127,662
Sales taxes	286,238		286,238
Franchise fees	171,829		171,829
Revenue producing facilities	12,504		12,504
Fines and fees	187,243		187,243
Licenses and permits	32,686		32,686
Investment income	24,028	219	24,247
Intergovernmental	13,786		13,786
Miscellaneous	<u>34,303</u>		<u>34,303</u>
Total revenues	<u>1,793,863</u>	<u>96,635</u>	<u>1,890,498</u>
Expenditures:			
Current:			
General administration	306,762		306,762
Judicial	16,217		16,217
Police department	737,525		737,525
Fire department	77,919		77,919
City maintenance	249,319		249,319
Streets and drainage	11,903		11,903
Parks and recreation	60,463		60,463
Capital outlay	94,423		94,423
Debt Service:			
Principal retirement		35,000	35,000
Interest and agent fees		<u>44,464</u>	<u>44,464</u>
Total expenditures	<u>1,554,531</u>	<u>79,464</u>	<u>1,633,995</u>
Excess of revenues over expenditures	239,332	17,171	256,503
Other Financing Sources (Uses):			
Transfer out	<u>(90,000)</u>		<u>(90,000)</u>
Net changes in fund balances	149,332	17,171	166,503
Fund balances – beginning	<u>871,157</u>	<u>27,057</u>	<u>898,214</u>
Fund balances - ending	<u>\$ 1,020,489</u>	<u>\$ 44,228</u>	<u>\$ 1,064,717</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

Net change in fund balances – total governmental funds	\$ 166,503
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which depreciation \$ 309,563 exceeded capital outlays \$ 94,423 in the current period.	(215,140)
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund decreased by \$ 1,181 and for the debt service fund increased by \$ 89.	1,092
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets. The amount was for general obligation bonded debt in the amount of \$ 35,000.	35,000
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt.	80
Municipal court revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Municipal court receivables, net of allowance, increased by \$ 12,290.	12,290
Capital contributions in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Capital contributions amounted to \$ 4,800,000.	<u>4,800,000</u>
Change in net assets of governmental activities	\$ <u><u>4,799,825</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD
Richwood, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUND - ENTERPRISE FUND

September 30, 2010

	<u>Enterprise Fund</u>
<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 342,384
Investments	45,222
Utility accounts receivable (less allowance for uncollectibles)	133,904
Due from other governments	47,493
Accrued interest receivable	<u>51</u>
	<u>569,054</u>
 Current Restricted Assets:	
Cash and cash equivalents	186,398
Investments	233,868
Accrued interest receivable	249
Bond issuance costs (current)	<u>1,027</u>
 Total current restricted assets	<u>421,542</u>
 Total current assets	<u>990,596</u>
 Noncurrent Assets:	
Bond issuance costs (net of current and accumulated amortization of \$ 6,378) - restricted	<u>14,376</u>
 Capital Assets:	
Property, plant and equipment	9,434,006
Less accumulated depreciation	<u>(3,420,939)</u>
 Total capital assets (net of accumulated depreciation)	<u>6,013,067</u>
 Total noncurrent assets	<u>6,027,443</u>
 Total assets	<u>7,018,039</u>

(continued)

	<u>Enterprise Fund</u>
<u>Liabilities and Net Assets</u>	
Current Liabilities:	
Accounts payable and accrued expenses	\$ 87,798
Due to other funds	<u>23,240</u>
Total current liabilities	<u>111,038</u>
Current Liabilities Payable from Restricted Assets:	
Accrued interest payable	6,592
Due to other funds – current	12,775
Revenue bonds payable – current	35,000
Customer deposits	<u>69,044</u>
Total current liabilities payable from restricted assets	<u>123,411</u>
Total current liabilities	<u>234,449</u>
Noncurrent Liabilities:	
Due to other funds	114,450
Revenue bonds payable - net	<u>531,000</u>
Total noncurrent liabilities	<u>645,450</u>
Total liabilities	<u>879,899</u>
Net Assets:	
Invested in capital assets, net of related debt	5,319,842
Restricted For:	
Revenue bond retirement	358,868
Capital construction	1,414
Unrestricted	<u>458,016</u>
Total net assets	<u>\$ 6,138,140</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUND - ENTERPRISE FUND**

For the Year Ended September 30, 2010

	Enterprise Fund
Operating Revenues:	
Water service	\$ 396,815
Sewer fees	350,324
Garbage fees	17,164
Delinquent charges	19,899
Taps and reconnect fees	14,650
Miscellaneous	<u>2,388</u>
Total operating revenues	<u>801,240</u>
Operating Expenses:	
Personnel costs	187,054
Sewer treatment plant operations	161,185
Waste water transmission line lease	146,423
Water costs – BWA	140,671
Utilities and telephone	45,353
Repairs and maintenance	53,328
Supplies	30,963
Miscellaneous	<u>19,615</u>
Operating expenses before depreciation	784,592
Depreciation	<u>192,131</u>
Total operating expenses	<u>976,723</u>
Operating income (loss)	(<u>175,483</u>)
Non-Operating Revenues (Expenses):	
Investment income	9,621
Interest expense and agent fees	(<u>33,874</u>)
Total non-operating revenues (expenses)	(<u>24,253</u>)
Income (loss) before contributions and operating transfers	(199,736)
Capital contributions	1,300,000
Capital contributions from other governments	110,970
Transfer in	<u>90,000</u>
Change in net assets	1,301,234
Net assets at beginning of year	<u>4,836,906</u>
Net assets at end of year	<u><u>\$ 6,138,140</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - ENTERPRISE FUND**

For the Year Ended September 30, 2010

	Enterprise Fund
Cash Flows from Operating Activities:	
Receipts from customers and users	\$ 821,884
Payments to other funds	13,266
Payments to suppliers	(619,408)
Payments to employees	(187,054)
Net cash provided by operating activities	<u>28,688</u>
Cash Flows from Non-Capital Financing Activities:	
Operating transfers in	<u>90,000</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(7,781)
Bond principal payments	(34,000)
Interest and fiscal charge payments	(33,405)
Net cash used for capital and related financing activities	<u>(75,186)</u>
Cash Flows from Investing Activities:	
Proceeds from the sale of investments	272,641
Purchase of investments	(279,090)
Interest received	<u>9,621</u>
Net cash provided by investing activities	<u>3,172</u>
Net increase in cash and cash equivalents	46,674
Cash and cash equivalents at the beginning of year	<u>482,108</u>
Cash and cash equivalents at the end of the year	<u>\$ 528,782</u>

(continued)

CITY OF RICHWOOD

Richwood, Texas

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - ENTERPRISE FUND - Continued**

For the Year Ended September 30, 2010

	Enterprise Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by	
Operating Activities:	
Operating income (loss)	\$(175,483)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by	
Operating Activities:	
Depreciation	192,131
Decrease in accounts receivable	19,274
Decrease in accounts payable	(21,870)
Increase in due to other funds	13,266
Increase in customer deposits	<u>1,370</u>
Total adjustments	<u>204,171</u>
Net cash provided by operating activities	<u>\$ 28,688</u>
Non-Cash Investing, Capital and Financing Activities:	
Contributions from other governments	\$ 110,970
Contributions from other	1,300,000
Assets acquired from contributions	<u>(1,410,970)</u>
Net effect of non-cash transactions	<u>\$ -0-</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

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CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Richwood (City) operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, public services (utility facilities), public recreation, public benefits (health and welfare), and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The City has no component units. The decision to not include a potential component unit in the reporting entity was made by applying the criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. Based upon the application of these criteria, no entities were considered to be component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-wide and Fund Financial Statements - Continued

Separate financial statements are provided for governmental funds and proprietary funds. The City does not have any fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has only one proprietary fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, municipal court revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the government.

The City has presented the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The Debt Service Fund accounts for the accumulation of resources for the annual payment of general long-term debt principal and interest of the governmental funds.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The City reports the following major proprietary fund:

The Enterprise Fund is used to account for the provision of water, sewer and sanitation services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility and sanitation customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Fund are charges to customers for sales and services. The City also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system.

Operating expenses for the Enterprise Fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

New Pronouncements

GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", was issued June 2007. This statement provides guidance for financial reporting of intangible assets for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 52, "Land and Other Real Estate Held as Investments by Endowments", was issued November 2007. This statement does not apply to the City as it holds not endowment funds. This statement is effective for periods beginning after June 15, 2008. The statement was implemented and did not have an impact on the City's financial statements.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - Continued

GASB No. 53, "Accounting and Financial Reporting for Derivative Instruments", was issued June 2008. This statement provides guidance for financial reporting of derivative instruments for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", was issued April 2009. This statement provides guidance on classification of fund equity. The management of the City does not believe that the implementation of this statement will affect the financial statements of the City. This statement is effective for periods beginning after June 15, 2010.

GASB No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", was issued April 2009. This statement is effective immediately and had no affect on the City's financial statements.

GASB No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", was issued April 2009. This statement is effective immediately and had no affect on the City's financial statements.

GASB No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", was issued December 2009. This statement is effective immediately and had no affect on the City's financial statements.

GASB No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies", was issued December 2009. This statement is effective for periods beginning after June 15, 2009. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 59, "Financial Instrument Omnibus", was issued December 2009. The management of the City does not believe that the implementation of this statement will affect the financial statements of the City. This statement is effective for periods beginning after June 15, 2010.

Budgetary Data

All departments of the City submit requests for appropriation to the City Secretary so that a budget may be prepared. The budget is prepared by fund and includes requested appropriations for the next year. The proposed budget is presented to the Mayor and City Council for review. The City Council holds budget workshops and may add to, subtract from, or change appropriations. A public hearing is held prior to adoption.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level. Line item and department budgets may exceed appropriated amounts at the discretion of the City Council as long as total expenditures for the fund do not exceed appropriated amounts. Revisions to the budget were made during the year. Appropriations not exercised in the current year lapse at the end of the year.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgetary Data - Continued

The City adopts annual budgets for all significant governmental fund types (General Fund and Debt Service Fund) and proprietary fund type (Enterprise Fund).

The City prepares its annual budget on a generally accepted accounting principles basis (GAAP basis). The budget and all transactions are presented in accordance with the City's GAAP basis in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General, Debt Service and Enterprise Fund to provide a meaningful comparison of actual results with the budget.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized. Encumbrances outstanding at year end are reported as a reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The City's encumbrances amounted to \$ 22,598 September 30, 2010.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and short-term investments with an original maturity date of three months or less. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. Temporary investments are stated at cost. State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements.

Inventory

The City uses the purchase method of accounting for inventory. In the purchase method of accounting for inventory, purchases of gasoline and office supplies are recorded as expenditures when acquired. Inventory on hand at the end of the year is recorded as an asset and a reservation of fund balance if significant. Inventory at September 30, 2010 was not significant and therefore, is not recorded.

Capital Assets

Capital assets, which includes land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets - Continued

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest cost to be capitalized on assets with tax-exempt borrowing is equal to the cost of the borrowing less interest earned on the related tax-exempt borrowing. During the year ended September 30, 2010, no capitalized interest was recorded.

Assets capitalized have an original cost of \$ 5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	31.5-40 Years
Furniture, equipment and vehicles	5-10 Years
Infrastructure:	
Water and sewer System	45 Years
General infrastructure assets	40-45 Years

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the City is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years. Under certain circumstances taxpayers and taxing units, including the City, may challenge orders of the BCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on July 17, 2009, upon which the levy for the 2009-10 fiscal year was based, was \$ 150,606,547. Taxes are delinquent if not paid by January 31. Delinquent taxes are subject to penalty and Interest charges plus 15 % delinquent collection fees for attorney costs.

The tax rates assessed for the year ended September 30, 2010, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.63448 and \$ 0.05918 per \$ 100 valuation, respectively, for a total of \$ 0.69366 per \$ 100 valuation.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property Taxes - Continued

Current tax collections for the year ended September 30, 2010 were 99.15% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of September 30, 2010, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 25,325 and \$ 2,405 for the general and debt service funds, respectively.

Pension Plans

It is the policy of the City to fund pension costs annually. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service costs. In the fiscal year ended September 30, 1999, the City implemented GASB Statement 27, Accounting for Pensions by State and Local Governmental Employers, which standardizes financial reporting for pensions by state and local governmental employers for the Emergency Services Personnel Retirement Fund (the Fund) upon the Fund's adoption of GASB 25. For fiscal year ended September 30, 1998, the City implemented GASB Statement 27 for the Texas Municipal Retirement System (TMRS). At the date of transition and implementation of GASB Statement 27, there was no pension liability or pension asset (see Note 10).

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. The City has not recorded any bond premiums and discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing resources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The City has not received any premiums and or discounts on debt issuances.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets

Net assets represents the differences between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciations, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES

The City classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose, a temporary investment is one that when purchased had a maturity date of three months or less. Cash and temporary investments, and investments, as reported on the statement of net assets at September 30, 2010, are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 450	\$	\$ 450
Financial Institution Deposits:			
Demand deposits	141,616	10,723	152,339
Certificates of deposit	135,369	123,759	259,128
Local Government Investment Pool:			
Texpool	<u>580,388</u>	<u>51,916</u>	<u>632,304</u>
	<u>857,823</u>	<u>186,398</u>	<u>1,044,221</u>
Investments:			
Financial Institution Deposits:			
Certificates of deposit	145,315	157,891	303,206
Held by Broker Dealers	<u>267,654</u>	<u>75,977</u>	<u>343,631</u>
Total investments	<u>412,969</u>	<u>233,868</u>	<u>646,837</u>
Total	<u>\$ 1,270,792</u>	<u>\$ 420,266</u>	<u>\$ 1,691,058</u>

Deposits

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At year end, except \$ 450 petty cash, the carrying amount of the City's deposits was \$ 942,407, while the financial institution balances totaled \$ 970,282. Of the financial institution balances, \$ 440,115 was covered by federal depository insurance, \$ 265,025 was covered by SIPC coverage, and \$ 265,142 was covered by collateral held by the City's agent in the City's name.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes and "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

The City's Investment Officer submits an investment report each quarter to the City Council. The report details the investment positions of the City and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. Banker's acceptances as permitted by Government Code 2256.012;
5. Commercial paper as permitted by Government Code 2256.013;
6. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
7. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and
8. Public funds investment pools as permitted by Government Code 2256.016.

The City is invested in a certificate of deposit at Brazoswood National Bank to provide its liquidity needs. It has a maturity of less than 365 days. This investment is insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

The City participates in one Local Government Investment Pool (LGIPs): Texpool. The State Comptroller oversees Texpool with Lehman Brothers and Federated Investors managing the daily operations of the pool under a contract with the State Comptroller.

The City invests in Texpool to provide its liquidity needs. Texpool is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool is a 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texpool is AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

At September 30, 2010 Texpool had a weighted average maturity of 34 days. Although Texpool portfolio had a weighted average maturity of 34 days, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

The following table includes the portfolio balances of all investment types of the City at September 30, 2010.

	Maturity Date	Interest Rate	Weighted Average Maturity (Days)	Investment Balance
Certificate of Deposit	10-27-10	0.50%	1.8	\$ 101,869
Certificate of Deposit	10-04-10	0.50%	0.2	67,663
Certificate of Deposit	01-29-11	0.85%	9.6	122,067
Certificate of Deposit	02-12-11	0.65%	5.0	57,242
Certificate of Deposit	12-17-10	0.40%	4.5	89,596
Certificate of Deposit	03-17-11	0.60%	13.5	123,897
Certificate of Deposit	09-29-14	3.35%	49.3	51,919
Certificate of Deposit	04-29-13	3.15%	12.7	20,662
Certificate of Deposit	04-29-14	3.35%	35.0	41,197
Certificate of Deposit	04-29-13	3.15%	12.7	20,662
Certificate of Deposit	04-29-14	3.35%	35.0	41,197
Certificate of Deposit	04-29-14	3.35%	44.3	52,097
Total Certificates of Deposit			223.6	790,068 (continued)

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2010**NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES** - Continued**Investments** - Continued

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Weighted Average Maturity (Days)</u>	<u>Investment Balance</u>
Local Government Investment Pool: Texpool	N/A	Varies daily	0.4	\$ 632,304
U.S. Instrumentality Securities: FNMA	05-25-20	7.50%	0.2	97
Equity	04-25-14	N/A	<u>49.0</u>	<u>115,800</u>
Total investments			<u>273.2</u>	<u>\$ 1,538,269</u>

Texpool - The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAm by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

Credit Risk - As of September 30, 2010, the LGIPs (which represent approximately 41.10% of the unrestricted portfolio) are rated AAAm by Standard and Poor's or AAA by Finch, while the remainder is either invested in fully secured certificates of deposit or secured by SIPC.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lessor of a dollar weighted average maturity of 365 days of the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the City's cash flow requirements.

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The City made no direct investments in derivatives during the year ended September 30, 2010, and holds no direct investments in derivatives at September 30, 2010.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 3 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Taxes

Ad valorem taxes receivable are reserved based on historical experience and evaluation of collectivity as the lesser of a percentage of the original levy and the current receivable for each levy year. The following is a summary of the allowance for uncollectible taxes by fund:

General Fund	\$ 12,019
Debt Service Fund	<u>1,509</u>
Total	<u>\$ 13,528</u>

Municipal Court Receivables

Municipal court receivables are reported in the governmental activities statement of net assets. Since these receivables do not represent current available resources, they are not reported in the governmental funds balance sheet. The allowance for uncollectible receivables related to municipal court assessments is determined based on historical experience and evaluation of collectibility in relation to the aging of customer accounts. The allowance for uncollectible receivables for the year ended September 30, 2010 was \$ 83,766.

NOTE 4 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of September 30, 2010, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 19,703	\$
Delinquent property taxes receivable (debt service fund)	1,867	
Other	<u> </u>	<u>13,418</u>
Total deferred/unearned revenue from governmental funds	<u>\$ 21,570</u>	<u>\$ 13,418</u>

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Interfund Receivables and Payables:

Interfund balances at September 30, 2010 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Enterprise fund	\$ 150,465	\$
Debt service fund		16,648
Total general fund	<u>150,465</u>	<u>16,648</u>
Debt Service Fund:		
General fund	<u>16,648</u>	
Total debt service fund	<u>16,648</u>	<u>-0-</u>
Enterprise Fund:		
General fund		<u>150,465</u>
Total enterprise fund	<u>-0-</u>	<u>150,465</u>
Totals	<u>\$ 167,113</u>	<u>\$ 167,113</u>

Of the total amount of \$ 150,465 receivable from the General Fund and payable from the Enterprise Fund, \$ 127,225 is considered a long-term asset and liability. The Enterprise Fund borrowed these funds for the relocation of water and sewer lines for the FM 2004 expansion project and is scheduled to repay with interest as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 13,033	\$ 2,426	\$ 15,459
2012	13,296	2,163	15,459
2013	13,564	1,894	15,458
2014	13,838	1,620	15,458
2015	14,117	1,341	15,458
2016	14,402	1,056	15,458
2017	14,693	765	15,458
2018	14,990	469	15,459
2019	<u>15,292</u>	<u>166</u>	<u>15,458</u>
	<u>\$ 127,225</u>	<u>\$ 11,900</u>	<u>\$ 139,125</u>

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010, was as follows:

	<u>Balance</u> <u>10/01/09</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/10</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 266,940	\$	\$	\$ 266,940
Total capital assets, not being depreciated	<u>266,940</u>	<u>-0-</u>	<u>-0-</u>	<u>266,940</u>
Capital Assets, Being Depreciated:				
Buildings	396,639			396,639
Equipment	1,355,672	34,327		1,389,999
Infrastructure	<u>4,086,565</u>	<u>4,860,096</u>		<u>8,946,661</u>
Total capital assets, being depreciated	<u>5,838,876</u>	<u>4,894,423</u>	<u>-0-</u>	<u>10,733,299</u>
Less Accumulated Depreciation For:				
Buildings	263,338	13,975		277,313
Equipment	804,462	109,962		914,424
Infrastructure	<u>2,052,719</u>	<u>185,626</u>		<u>2,238,345</u>
Total accumulated depreciation	<u>3,120,519</u>	<u>309,563</u>	<u>-0-</u>	<u>3,430,082</u>
Total capital assets, being depreciated, net	<u>2,718,357</u>	<u>4,584,860</u>	<u>-0-</u>	<u>7,303,217</u>
Governmental activities capital assets, net	<u>\$ 2,985,297</u>	<u>\$ 4,584,860</u>	<u>\$ -0-</u>	<u>\$ 7,570,157</u>
Business-type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 122,580	\$	\$	\$ 122,580
Total capital assets, not being depreciated	<u>122,580</u>	<u>-0-</u>	<u>-0-</u>	<u>122,580</u>
Capital Assets, Being Depreciated:				
Buildings	183,770			183,770
Equipment	211,664	7,781		219,445
Infrastructure	<u>7,497,241</u>	<u>1,410,970</u>		<u>8,908,211</u>
Total capital assets, being depreciated	<u>7,892,675</u>	<u>1,418,751</u>	<u>-0-</u>	<u>9,311,426</u>
Less Accumulated Depreciation For:				
Buildings	70,094	4,594		74,688
Equipment	185,112	12,254		197,366
Infrastructure	<u>2,973,602</u>	<u>175,283</u>		<u>3,148,885</u>
Total accumulated depreciation	<u>3,228,808</u>	<u>192,131</u>		<u>3,420,939</u>
Total capital assets, being depreciated, net	<u>4,663,867</u>	<u>1,226,620</u>	<u>-0-</u>	<u>5,890,487</u>
Business-type activities capital assets, net	<u>\$ 4,786,447</u>	<u>\$ 1,226,620</u>	<u>\$ -0-</u>	<u>\$ 6,013,067</u>

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 6 - CAPITAL ASSETS - Continued

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:

General administration	\$ 37,733
City maintenance	13,967
Streets and drainage	155,626
Police department	43,075
Fire department	42,537
Parks and recreation	<u>16,625</u>
Total depreciation expense-governmental activities	<u>\$ 309,563</u>

Business-type Activities:

Water and sewer	<u>\$ 192,131</u>
Total depreciation expense-business-type activities	<u>\$ 192,131</u>

Contributed Capital

During the year ended September 30, 2010 the City received contributed capital in the amount of \$ 6,210,970, in which \$ 6,100,000 was from Oakwood Shores Infrastructure Subdivision, and \$ 110,970 was from other governments. Of the total amount, \$ 4,800,000 is reported within governmental activities and \$ 1,410,970 is reported within the business-type activities as water system improvements.

NOTE 7 - LONG-TERM DEBT**General Obligation Bonds\Certificates of Obligation**

In November 1999, the City issued City of Richwood, Texas Combination Tax and Revenue Certificates of Obligation, Series 1999 in the amount of \$ 1,035,000 for approved capital construction.

General obligation bonds and certificates of obligation payable for governmental activities at September 30, 2010, are summarized as follows:

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/10
		Issued	Maturity	Callable	
Certificates of Obligation:					
Combination Tax and Revenue, Series 1999	5.20- 7.75	1999	2024	2009	<u>\$ 750,000</u>
Total					<u>\$ 750,000</u>

General obligation bond transactions for the year ended September 30, 2010 were as follows:

Bonds outstanding, October 1, 2009	\$ 785,000
Maturities	<u>(35,000)</u>
Bonds outstanding, September 30, 2010	<u>\$ 750,000</u>

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 7 - LONG-TERM DEBT - Continued**General Obligation Bonds/Certificates of Obligation - Continued**

The following is a summary of general obligation bond requirements for governmental activities by year as of September 30, 2010:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2011	\$ 35,000	\$ 42,163	\$ 77,163
2012	40,000	40,325	80,325
2013	40,000	38,185	78,185
2014	40,000	35,985	75,985
2015	45,000	33,785	78,785
2016-2020	270,000	127,710	397,710
2021-2024	<u>280,000</u>	<u>41,114</u>	<u>321,114</u>
Total	<u>\$ 750,000</u>	<u>\$ 359,267</u>	<u>\$ 1,109,267</u>

Revenue Bonds/Certificates of Obligation

In July 2004, the City issued \$ 500,000 of City of Richwood, Texas Combination Tax and Revenue Certificates of Obligation, Series 2004 to finance improvements to the existing wastewater system (the "Project"). Interest rates on these bonds range from 2.75% to 5.70%. These certificates of obligation were purchased by the Texas Water Development Board. \$ 467,500 of the proceeds were being held in escrow with a financial institution pending approval by the Texas Water Development Board of contracts and other documentation for this Project. During the year ended September 30, 2005 these funds were transferred to the City.

Revenue bonds/certificates of obligation payable for business-type activities at September 30, 2010, are summarized as follows:

	<u>Interest Rates %</u>	<u>Series Dates</u>			<u>Bonds Outstanding 09/30/10</u>
		<u>Issued</u>	<u>Maturity</u>	<u>Callable</u>	
Revenue Bonds					
Series 1980	5.00	1980	2019	1990	\$ 151,000
Combination Tax and Revenue					
Certificates of Obligation-	2.75-				
Series 2004	5.70	2004	2025	2009	<u>415,000</u>
Total					<u>\$ 566,000</u>

Revenue bond/certificates of obligation transactions for the year ended September 30, 2010 were as follows:

Bonds outstanding, October 1, 2009	\$ 600,000
Maturities	<u>(34,000)</u>
Bonds outstanding, September 30, 2010	<u>\$ 566,000</u>

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 7 - LONG-TERM DEBT - Continued

Revenue Bonds/Certificates of Obligation - Continued

The following is a summary of revenue bond/certificates of obligation requirements for business-type activities by year as of September 30, 2010:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2011	\$ 35,000	\$ 28,363	\$ 63,363
2012	36,000	26,717	62,717
2013	37,000	24,998	61,998
2014	37,000	23,228	60,228
2015	43,000	21,287	64,287
2016-2020	203,000	73,666	276,666
2021-2025	<u>175,000</u>	<u>25,812</u>	<u>200,812</u>
Total	\$ <u>566,000</u>	\$ <u>224,071</u>	\$ <u>790,071</u>

Transactions for the year ended September 30, 2010 are summarized as follows:

	<u>Balance 10/01/09</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/10</u>	<u>Due Within One Year</u>
Governmental Type Activities:					
Certificates of obligation	\$ 785,000	\$	\$ 35,000	\$ 750,000	\$ 35,000
Component of Bonded Debt:					
Accrued interest payable	<u>1,928</u>	<u>1,848</u>	<u>1,928</u>	<u>1,848</u>	<u>1,848</u>
Total governmental activities	<u>786,928</u>	<u>1,848</u>	<u>36,928</u>	<u>751,848</u>	<u>36,848</u>
Business Type Activities:					
Certificates of obligation	435,000		20,000	415,000	20,000
Revenue bonds	165,000		14,000	151,000	15,000
Component of Bonded Debt:					
Accrued interest payable	<u>7,151</u>	<u>6,592</u>	<u>7,151</u>	<u>6,592</u>	<u>6,592</u>
Total business type activities	607,151	6,592	41,151	572,592	41,592
Less Portion Payable from Restricted Assets:					
Certificate of obligation	20,000			20,000	20,000
Revenue bonds payable	14,000	1,000		15,000	15,000
Accrued interest payable	<u>7,151</u>	<u>6,592</u>	<u>7,151</u>	<u>6,592</u>	<u>6,592</u>
Net business-type activities	<u>566,000</u>	(<u>1,000</u>)	<u>34,000</u>	<u>531,000</u>	<u>-0-</u>
Total government (net)	\$ <u>1,352,928</u>	\$ <u>848</u>	\$ <u>70,928</u>	\$ <u>1,282,848</u>	\$ <u>36,848</u>

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 8 - LEASES

Capital Leases

The City has no capital leases as of September 30, 2010.

Operating Leases

In February, the City entered into a copier lease that will expire in February 2013. This lease is considered for accounting purposes to be an operating lease. The lease is on a month-to-month basis. Total governmental activities lease expenditures for the year ended September 30, 2010 were \$ 6,333.

On February 26, 2010, the City's Enterprise Fund entered into an interlocal waste water transmission line lease agreement, an operating lease, with the City of Clute. The lease requires quarterly payments on January 15, April 15, July 15, and October 15 of each year from 2010 to 2025. The lease requires total payments of \$ 2,413,627 with varying quarterly payment. During the year ended September 30, 2010 the business-type activities reported expenses in the amount of \$ 146,422. The following are the minimal lease payments required under this lease:

<u>Year Ending</u> <u>September 30,</u>	<u>Total</u> <u>Requirements</u>
2011	\$ 195,376
2012	197,067
2013	148,041
2014	132,269
2015	133,299
2016-2020	687,284
2021-2025	735,844
2026	<u>38,025</u>
Total	\$ <u>2,267,205</u>

NOTE 9 - JOINT OPERATIONS

The City is party to an agreement with the City of Clute to share costs associated with the operation of a sewer treatment plant. The percentage for sharing the operating expenses (excluding maintenance and capital outlay) is determined based upon the metered flow of wastewater for each City. For the year ended September 30, 2010, the City of Richwood's portion of these expenses was determined to be 17.39 percent, which amounted to \$ 137,633. Further, the City of Richwood shares in 25 percent of maintenance costs (including capital acquisitions) which amounted to \$ 23,552 for the year ended September 30, 2010. The City of Clute maintains both budgetary and accounting responsibility over these operations.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 10 - PENSION PLAN

Plan Description

The City provides pension benefits for all of its full-time employees except volunteer firefighters, through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions.

In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for the employees is 5%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 30-year period. The remaining open amortization period is 28 years. The projected unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2009 valuation is effective for rates beginning January 2011).

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 10 - PENSION PLAN - Continued

Plan Description - Continued

The last actuarial valuation was conducted on December 31, 2009. Significant actuarial assumptions used include (a) a level percent of payroll amortization method, (b) projected salary increases varies by age and services, (c) a 3.0% inflation adjustment, (d) 2.1% (3.0% cpi) cost of living adjustment, (e) an amortized cost asset valuation method, and (f) a rate of return on the investments of 7.5 percent per year.

Financial reports that include financial statements and supplementary information are publicly available by writing or calling the following:

Texas Municipal Retirement System
PO Box 149153
Austin, TX 78714-9153
(877) 634-8595

Funding Status and Progress

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date		12/31/09
Actuarial Value of Assets	\$	1,326,950
Actuarial Accrued Liability	\$	1,970,303
Percentage Funded		67.3%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$	643,353
Annual Covered Payroll	\$	798,226
UAAL as a Percentage of Covered Payroll		80.6%
Net Pension Obligation (NPO) at the Beginning of Period	\$	-0-
Annual Pension Cost:		
Annual required contribution (ARC)	\$	98,790
Interest on NPO		-0-
Adjustment to the ARC		-0-
Total	\$	98,790
Contribution Made	\$	98,790
Increase in NPO		-0-
NPO at the end of the period	\$	-0-

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 10 - PENSION PLAN - Continued

Funding Status and Progress - Continued

The schedule of actuarial liabilities and funding progress for the years ended December 31, 2007 to 2009, are as follows:

<u>Year</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Percentage Funded</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>
2007	\$ 1,158,207	\$ 1,634,763	70.80%	\$ 476,556
2008	1,133,357	1,683,022	67.30%	549,665
2009	1,326,950	1,970,303	67.30%	643,353

<u>Year</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>	<u>Annual Required Contribution (ARC)</u>	<u>ARC as s Percentage of Covered Payroll</u>
2007	\$ 605,645	78.70%	\$ 54,716	9.03%
2008	728,840	75.40%	94,078	12.91%
2009	798,226	80.60%	98,790	12.38%

The pension liability at transition was determined in accordance with the provisions of GASB Statement No. 27 and was zero. Amounts provided prior to adoption of GASB Statement No. 27 are amounts provided under GASB Statement No. 5.

NOTE 11 - RISK POOL PARTICIPATION

The City is a participant in the Texas Municipal League Intergovernmental Risk Pool for coverage of liability, property, worker's compensation, and medical insurance. The City pays annual premiums to the pool for the coverages stated. The agreement with the Texas Municipal League Intergovernmental Risk Pool requires the pool to be self-sustaining. Property and liability insurance provide varying and appropriate coverage, with most claims subject to a \$ 5,000 deductible. Workers compensation claims are managed by the Texas Municipal League. In addition, the City has designated a portion of the General Fund balance for insurance contingencies, to handle deductibles and other associated costs. For medical insurance claims, the City pays insurance premiums for full coverage and has no liability for claims filed by employees or their covered dependents.

NOTE 12 - EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through January 13, 2011, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF RICHWOOD

Richwood, Texas

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 987,565	\$ 1,011,159	\$ 1,031,246	\$ 20,087
Sales taxes	290,000	260,000	286,238	26,238
Franchise fees	155,000	155,000	171,829	16,829
Revenue producing facilities	20,000	13,000	12,504	(496)
Fines and fees	90,000	170,000	187,243	17,243
Licenses and permits	25,000	34,000	32,686	(1,314)
Investment income	10,000	10,000	24,028	14,028
Intergovernmental	25,000	25,000	13,786	(11,214)
Miscellaneous	<u>20,000</u>	<u>43,445</u>	<u>34,303</u>	<u>(9,142)</u>
Total revenues	<u>1,622,565</u>	<u>1,721,604</u>	<u>1,793,863</u>	<u>72,259</u>
Expenditures:				
Current:				
General administration	327,540	262,490	306,762	(44,272)
Judicial	19,600	19,600	16,217	3,383
Police department	767,788	763,288	737,525	25,763
Fire department	80,550	83,245	77,919	5,326
City maintenance	226,351	269,780	249,319	20,461
Streets and drainage	20,000	25,000	11,903	13,097
Parks and recreation	48,752	88,732	60,463	28,269
Capital outlay	<u>131,984</u>	<u>209,489</u>	<u>94,423</u>	<u>115,066</u>
Total expenditures	<u>1,622,565</u>	<u>1,721,624</u>	<u>1,554,531</u>	<u>167,093</u>
Excess of revenues over (under) expenditures		(20)	239,332	239,352
Other Financing Resources (Uses):				
Transfer out			<u>(90,000)</u>	<u>(90,000)</u>
Net changes in fund balances	-0-	(20)	149,332	149,352
Fund balances, beginning	<u>871,157</u>	<u>871,157</u>	<u>871,157</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 871,157</u>	<u>\$ 871,137</u>	<u>\$ 1,020,489</u>	<u>\$ 149,352</u>

CITY OF RICHWOOD

Richwood, Texas

**TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
LAST THREE FISCAL YEARS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets**</u>	<u>Actuarial Accrued Liability* (AAL)-</u>	<u>Unfunded AAL (UAAL)</u>	<u>Percentage Funded</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/(c)
2007	\$ 1,158,207	\$ 1,634,763	\$ 476,556	70.80%	\$ 605,645	78.70%
2008	1,133,357	1,683,022	549,665	67.30%	728,840	75.40%
2009	1,326,950	1,970,303	643,353	67.30%	798,226	80.60%

* As of December 31 of the preceding year, the date of the actuarial valuation.

** Assets are stated at cost as of December 31 of the preceding year.

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INDIVIDUAL FUND SCHEDULES

CITY OF RICHWOOD

Richwood, Texas

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL -
DEBT SERVICE FUND**

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 94,983	\$ 94,983	\$ 96,416	\$ 1,433
Interest	<u>120</u>	<u>120</u>	<u>219</u>	<u>99</u>
Total revenues	<u>95,103</u>	<u>95,103</u>	<u>96,635</u>	<u>1,532</u>
Expenditures:				
Debt Service:				
Principal	47,775	47,775	35,000	12,775
Interest and fiscal charges	<u>46,666</u>	<u>46,666</u>	<u>44,464</u>	<u>2,202</u>
Total expenditures	<u>94,441</u>	<u>94,441</u>	<u>79,464</u>	<u>14,977</u>
Excess of revenues over (under) expenditures	662	662	17,171	16,509
Fund balances, beginning	<u>27,057</u>	<u>27,057</u>	<u>27,057</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 27,719</u>	<u>\$ 27,719</u>	<u>\$ 44,228</u>	<u>\$ 16,509</u>

CITY OF RICHWOOD

Richwood, Texas

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL - PROPRIETARY FUND - ENTERPRISE FUND

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Water fees	\$ 434,019	\$ 450,269	\$ 396,815	\$(53,454)
Sewer fees	395,108	410,358	350,324	(60,034)
Garbage fees	10,000	17,500	17,164	(336)
Delinquent charges	30,000	30,000	19,899	(10,101)
Tap and reconnect fees	16,000	17,000	14,650	(2,350)
Miscellaneous	7,000	99,500	2,388	(97,112)
Total revenues	892,127	1,024,627	801,240	(223,387)
Operating Expenses:				
Personnel costs	176,323	186,273	187,054	(781)
Sewer treatment plant operations	240,000	322,500	307,608	14,892
Water costs – BWA	140,000	140,000	140,671	(671)
Utilities and telephone	32,108	39,100	45,353	(6,253)
Repairs and maintenance	41,388	40,388	53,328	(12,940)
Supplies	52,115	50,965	30,963	20,002
Miscellaneous	20,022	20,380	19,615	765
Operating expenses before depreciation	701,956	799,606	784,592	15,014
Depreciation	190,171	190,171	192,131	(1,960)
Total operating expenses	892,127	989,777	976,723	13,054
Operating income (loss)	-0-	34,850	(175,483)	(210,333)
Non-Operating Revenues (Expenses):				
Investment income			9,621	9,621
Interest expense and agent fees			(33,874)	(33,874)
Total non-operating revenues (expenses)	-0-	-0-	(24,253)	(24,253)
Income (loss) before contributions and operating transfers	-0-	34,850	(199,736)	(234,586)
Capital contributions			1,300,000	1,300,000
Capital contributions from other governments			110,970	110,970
Transfer in			90,000	90,000
Change in net assets	-0-	34,850	1,301,234	1,266,384
Net assets, beginning	4,836,906	4,836,906	4,836,906	-0-
Net assets, ending	\$ 4,836,906	\$ 4,871,756	\$ 6,138,140	\$ 1,266,384

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